GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:490
ANSWERED ON:22.12.2000
US-64 BAILOUT DEAL
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government incurred a loss of Rs. 2,200 crores inbuying various shares held by UTI, which has been termed the `US-64` bailout deal;

(b) if so, the compulsion behind this forced purchase;

(c) to what extent has UTI been able to manage its role as mutual fund;

(d) whether there are hidden losses from various investments of UTI;

(e) if so, the details in this regard; and

(f) the steps proposed to be taken by the Government to tighten its supervision?

Answer

MINISTRY OF STATE IN THE MINISTRY OF FINANCE (BALASAHEB VIHE PATIL)

(a) to (f) A statement is laid on the Table of the House.

Statement referred to in the reply to Lok Sabha Starred Question No. 490 for answer on Friday the 22nd December 2000 by Prof. Ummareddy Venkateswarlu and Shri Kirit Somaiya regarding US-64 Bailout Deal.

(a) & (b) In the wake of adverse reports on US-64, the Unit Trust of India (UTI) constituted an expert committee on US-64 in October 1998, under the chairmanship of Shri Deepak Parekh to undertake a comprehensive review of the functioning of US-64 and to recommend measures for sustaining investor confidence. The Committee recommended, inter alia, that PSU stocks be transferred to the Government of India by creating a Special Unit Scheme (SUS-99). Accordingly, SUS-99 was launched in June 1999 with the Government of India providing Rs. 3300 crores to the scheme by issuing dated GOI securities. At the same time, PSU holdings of US-64 were transferred to SUS-99 at a book value of Rs. 3300 crores whose market value was Rs. 1526.91 crores as of June 28, 1999. This has declined to Rs. 1369.48 crores as of 7th December 2000.

(c) UTI was established with a view to encouraging saving and investment and participation in the income, profits and gains accruing to it from investments in securities. It manages an aggregate portfolio of Rs. 75,159 crores and services 4.3 crore investors under 93 mutual fund schemes with a servicing and distribution network of 54 branches, 3 UFCs , 288 Chief Representatives and about 75,000 agents.

(d) The profit and loss positions are reflected in the Net Asset Value (NAV) of the respective schemes and the annual reports on accounts are published for the information of the investing public.

(e) Does not arise, in view of the reply to (d) above.

(f) UTI is an autonomous body created by an Act of Parliament. As per the UTI Act, the Board of Trustees, in discharging its functions, acts on business principles, keeping in view the interests of the unit holders. All schemes floated by UTI after July 1994 are within the regulatory purview of the Securities and Exchange Board of India.Most of the schemes launched prior to 1994 have also been voluntarily subjected to supervision and inspection by SEBI and compliance with its guidelines for mutual funds. In July 2000, on the suggestion of the Government, UTI set up a Committee on Corporate Positioning to review its competitive and commercial positioning in the light of financial sector reforms and developments in the mutual fund industry.